

City Budget 101

A guide to understanding the City of Santa Clara's budget and financial challenges ahead

SEPTEMBER, 2010

City budget reflects the values, priorities of the community

"The longest and deepest recession the country has seen in decades (since December 2007) will now be called the 'Great Recession.'"

Associated Press, February 2010

How you spend money is a concrete expression of what is important to you. No matter your income level, each expenditure decision reflects your priorities at that point in time. Foremost on the list is always having a place to live and food on the table, and these basic costs of living can be a struggle for some people. Investing in college funds for your children, traveling to faraway places, saving for a house, buying new tools or equipment – each financial decision for those fortunate to have some discretionary income is an example of how you have considered your options and made a choice.

The same is true for municipal finance. Each year the City develops and adopts a budget that reflects public policies and priorities. Decisions are made about what is most important to accomplish in the coming year, and how best to allocate limited resources to take care of today's needs and tomorrow's dreams.

Developing a multi-million dollar budget for a City is a complex process, made more difficult when the economy is in a lingering recession.

No one expected this recession to last this long or to be so deep. It's now being called the Great Recession – although there is not much about it that is great. There is not a family, business, organization or city that has not been affected by the global economic turmoil we've experienced in the past few years. Although most experts believe the U.S. has turned the corner to economic recovery, no one can predict how long it will take.

The City is required by law to adopt a balanced budget every year. In order to do this, anticipated revenues are calculated using the best information available at the time and compared to expected expenses. When there is a shortfall, City leaders are forced to make tough decisions. With reserve accounts at an all time low,

Santa Clara's options are few. Over the past few years, it has become more and more difficult to balance the budget as revenues have continued to decline. All of the "low hanging fruit" of expense cutbacks have been made and residents are now beginning to see the impacts of reductions to City services. Analysis shows that the City will

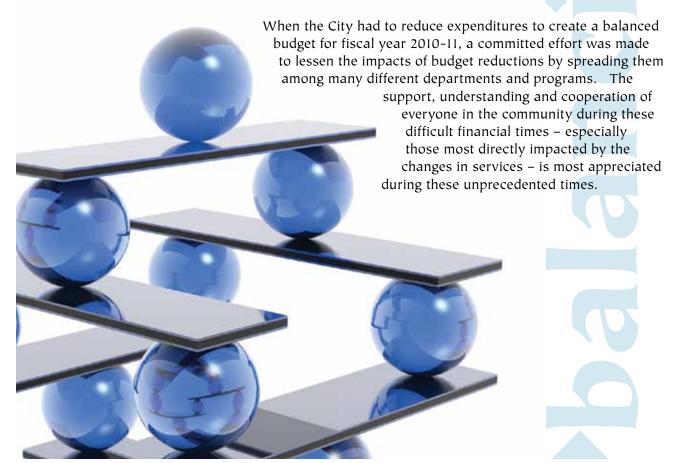
continue to have significant budget challenges through 2016, and perhaps well beyond.

This publication is designed to provide the Santa Clara community with a better understanding of where the City gets its revenues and how budget decisions are made. There will be changes in the way the City delivers services to residents and businesses, and not all will be welcome. But by working together as a community, we are confident that we will find long-term budget solutions for the future. We thank you for your support, understanding and cooperation.

When budgets must be cut ... a challenge in balancing competing needs

When almost all of your General Fund budget is devoted to delivering services, it doesn't take much of a budget cutback before services are affected. You can trim training costs and decrease supplies and equipment purchases, but the only way to achieve major reductions in a municipal budget is by reducing the level and costs of services provided by City employees.

It is not an easy thing to decide where to cut service. Will the library be open fewer hours? Or the Senior Center? The Teen Center? Will there be fewer people repairing streets or maintaining parks? No matter what decisions are made, someone is going to be disappointed.



What is the General Fund?

This is the fund that pays for the bulk of the day-to-day services delivered to the community such as police, fire, library, parks, recreation, and permits. Learn more about the General Fund on pages 2-3.

What is the Capital Improvement Program?

Capital improvements are long-term investments in civic facilities, parks and infrastructure such as streets. Read more about the Capital Improvement Program budget on page 4.

What is an Enterprise Fund?

Some government services, such as electricity and water, are self-supporting, meaning that fees paid by users cover the operating and capital costs of that particular service. No general tax dollars are used to support these services. Read more about Enterprise Funds on page 4.

Where is more information about the budget?

Copies of the adopted budget for 2010-11 will soon be available at the Library and can be viewed online at www.santaclaraca.gov.

The General Fund - the wo

The General Fund pays for general operations and activities of the City

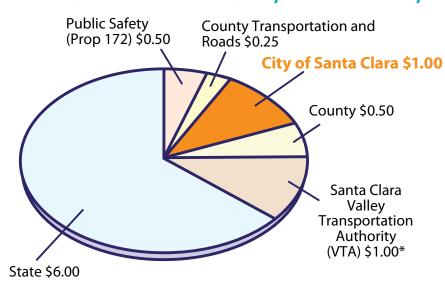
Where it comes from...

City relies on fluctuating sources of revenues that can be hard to predict

Sales Tax

Sales tax is the largest source of revenue for the General Fund, representing 22.5% of the revenue in the current budget. Despite positive economic indicators, consumer confidence continues to be low and people and businesses are reluctant to spend money, especially on big ticket items like new vehicles, electronic equipment, and restaurants. The City is projecting sales tax revenue for fiscal year 2010-11 of \$32.2 million, significantly less than the \$41.7 million collected just three years ago in 2007-08.

How is the \$9.25 sales tax on a \$100 purchase divided up?



* California sales tax is 8.25%. Santa Clara County has two voter approved over-rides of .5% each for transportation projects, making local sales tax 9.25%

Transient Occupancy Tax



Transient Occupancy Tax (TOT) is calculated as a percentage of hotel/motel room charges. The current TOT rate in Santa Clara is 9.5%. Revenue for the General Fund in the 2010-11 budget is estimated at \$8.5 million, a big change from the \$10.7 million collected in 2007-08.

Interest Income

It will come as no surprise to anyone who has a savings or investment account that interest income to the City is significantly less than in the past. Interest income for the General Fund in 2010-11 is projected at \$2.4 million, a decline from the \$4.6 million earned in 2007-08. The City's investment portfolio is managed in accordance with the Investment Policy approved by the City Council each year.

Economic development is an important budget strategy

Having a vibrant business community helps to generate revenues for the City from sales tax, property tax, fees and licenses. Businesses provide jobs and bring visitors, customers and clients into the City. The money they spend while in Santa Clara benefits the community and adds to the economic health and well being of the City.

The City makes special efforts to encourage businesses to locate and grow here, including one-stop permit processing and the lowest combined utility rates in the Bay Area.

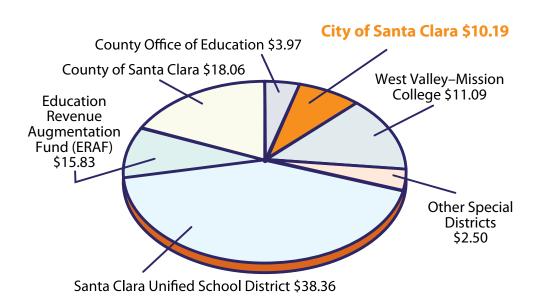
Property Tax The County Assessor cautioned

The County Assessor cautioned cities early this year to expect to see declines in assessed valuation, and that warning proved true. Too many homes are "under water," meaning that they are currently worth less than the mortgage owed. In Santa Clara, 7,459 residential and commercial parcels received Proposition 8 reductions in assessed value for 2010-11. For this reason, the City projected property tax



revenue for 2010-11 at \$29.1 million, a 2% decrease from last year.

How is every \$100 of property tax divided up?



Other Sources Of Revenue

The remainder of revenue for the General Fund comes from a variety of sources including fees paid for services (such as permits and recreation classes), rents and leases on City-owned land (such as Great America Theme Park and Hyatt Regency Hotel), business licenses, fines and penalties, and revenue from other government agencies.

Where you shop makes a difference!

You pay \$9.25 in sales tax when you spend \$100 on taxable items. If you make the purchase in the City of Santa Clara, the City receives \$1 of that sales tax. One dollar may not sound like much, but it adds up to millions of dollars in revenue for the General Fund.

Shopping local keeps your sales tax dollars working for you, and helps to maintain successful businesses and industries in the City that provide goods and services, jobs, and revenue to the City from licenses, fees, and taxes.

rkhorse of the City budget

the day-to-day services that residents, businesses and visitors rely on

Where it goes...

Almost all of the General Fund is spent on services provided by City departments

Fire Department

Responds to fire or medical emergency scenes 24/7 with highly trained and equipped personnel within three minutes after being notified and dispatched. The Fire Department also assists in recovery operations, conducts fire inspections, hazardous materials inspections, offers public education programs on fire prevention and handles emergency preparedness. Of 8,140 calls for service in 2009, the Fire Department fought 184 fires and provided aid to 6,187 medical emergencies.



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Police Department

Operates 24 hours a day, seven days and week and is staffed by sworn officers, civilian support personnel, a Police Reserve and citizen volunteers. The Police Department is also responsible for the operation and management of the City's Public Safety Communication Center which handles all 9-1-1 calls and coordinates all fire and police field units responding to

emergency calls. The department had 65,001 calls for service in 2009, resulting in 14,187 police reports and 4,554 arrests.

Library Department

Meets the full range of information needs of residents and other Library patrons. Library services and programs include both educational and recreational information, in both traditional and new media formats. The City's libraries had more than 1.4 million visitors and a circulation of



2.5 million items in 2009. Library programs attracted 33,634 participants, adults and children, and librarians responded to 97,382 reference inquiries.



Parks and Recreation

Responsible for managing the City's parks and recreational activities and the City-owned cemetery. This includes the 52-acre Central Park plus 31 additional City parks and playgrounds, community pools, the 40-acre Ulistac Natural Area, hundreds of recreation

classes and programs each year, and popular public facilities such as the Senior Center, Teen Center, Walter E. Schmidt Youth Activity Center, Community Recreation Center and the Santa Clara Golf & Tennis Club.

Planning and Inspection

Ensures the construction and use of private property conforms to standards of the City and State, with an emphasis on verifying health and safety and quality of construction. This department also is responsible for affordable housing projects for lower income residents and the administration of Community Development Block Grant funding.

City Administration

The offices of the City Manager, City Attorney and City Clerk and the Finance, Human Resources and Information Technology departments administer municipal government and support the other departments and the community with professional services, such as Silicon Valley Animal Control Authority.

Public Works/Engineering

Issues easement and encroachment permits, reviews private developments to verify compliance with City standards, designs and administers public works projects, maintains City-owned buildings and handles traffic engineering.

Street Department

Maintains the City's 240 miles of streets plus sidewalks, storm drains, street trees, median landscaping, landscaping of City-owned properties and City-owned vehicles. This department also coordinates solid waste collections and disposal, recycling, hazardous waste collection and disposal, street sweeping and the Annual Clean-Up Campaign.

FAQ on Santa Clara's 2010-11 Budget

Q: How big is the budget this year and how does it compare to the past?

The total City budget for 2010-11, including operations, enterprise funds and capital improvement projects, is \$546.8 million – a decrease of \$20.6 million from the adopted budget for fiscal year 2009-10.

Q: How was the budget balanced for 2010-11?

Balancing the budget this year took a multi-prong strategy: 1) about 15% of City positions (more than 100 positions) will be held vacant or eliminated; 2) reducing part time and overtime budgets; 3) hours were reduced at some facilities; 4) increasing revenues through higher fees, moving them closer to or to full cost recovery; 5) selling a piece of City property to the Electric Utility; 6) refinancing some debt; and other steps. Even considering these steps, a \$5 million revenue shortfall remains and needs to be resolved this fiscal year.

Q: What services were impacted by the budget reductions?

The City Council's Principles and Priorities and the City Manager's budget guidelines both emphasized that the budget should maintain core, affordable services and infrastructure. All City facilities will remain open, but Libraries, Parks & Recreation facilities and the Police Adminstration Building will have reduced hours. The City will not be able to continue to deliver even this level of services in the future, however, unless revenues significantly increase.

Q: Why weren't reserves used to balance the budget this year?

The budget challenges of the past three years have depleted the City's emergency reserves. We had \$21.1 million at the end of 2007-08 in emergency reserves, but a projected balance of just \$500,000 at the end of 2009-10.

Q: What happens if projected revenues for this fiscal year do not come in as expected?

This budget is very tight and has little margin for any unexpected loss of revenue or additional expenses. We hope that the economy does continue to improve and that there are no extraordinary circumstances such as a natural disaster that will require extra services from the City. Should either of these situations occur, more extreme measures will need to be considered to keep the City solvent.



Q: How is the City preparing for next year's budget?

Based on the best information available at this point in time, Santa Clara faces significant budget challenges throughout the Five Year Financial Plan, from 2011-12 through 2015-16. The City is starting a three-year effort to look at new, long-term strategies to bring expenditures into alignment with anticipated revenues. This is the third consecutive year of budget shortfalls, so all of the "low hanging fruit" of budget solutions have already been tapped and new approaches must be explored. Although we are confident that the economy will rebound, no one can predict right now what the new "normal" will be. The City must hope for a strong economy, but prepare for an economy that struggles for several years to come.

Beyond the General Fund: other parts of the City budget

Enterprise Funds

Revenues and expenses for the City's Electric, Water and Sewer Utilities are maintained in separate enterprise funds which are designed to be self-supporting. Fees paid by customers pay for day-to-day operations as well as contribute to infrastructure investments to replace aging and obsolete equipment and technology and expand capacity and customer services. By law, enterprise fund revenues can not be used to support non-enterprise fund activities such as General Fund services.

Water and Sewer Utilities

The Water Utility is responsible for the planning, design, construction, maintenance and operation of the City's water distribution system. About 68% of the 7.5 billion gallons of water that flow to Santa Clara customers each year is obtained from the City's own wells. The remainder is treated water purchased from wholesale water agencies. A recycled water program delivers more than one billion gallons each year for non potable uses such as landscape irrigation and industrial processes. This department also operates a sanitary sewage collection system that collects and conveys wastewater to the jointly owned San Jose/Santa Clara Water Pollution Control Plan for treatment and disposal. The combined water, sewer and electric rates are the lowest in the nine Bay Area counties.

Silicon Valley Power



The municipal Electric Utility provides electric power to approximately 52,000 residential and commercial customers. It consistently is named as a top performer in the U.S. for the fewest interruptions per customer and the shortest duration of interruptions that did occur. It has been a pioneer in producing electricity from sources that do not create greenhouse gases and more than 50% of its power mix comes from geothermal, hydroelectric and wind sources. Silicon Valley Power offers customers a wide variety of programs to

reduce their energy costs, including rebates for energy-efficient appliances and energy audits. Electric rates from Silicon Valley Power are among the lowest in California.

Capital Improvement Project (CIP) Funds

From repaving streets to building facilities for public use, these are the projects that are part of the Capital Improvement Project budget. Current projects include additions to the Creek Trail (funded by the Redevelopment Agency), street improvements (curb, gutter, sidewalk and new streets) for the South of Forest Neighborhood, new and rebuilt electric utility substations to assure system reliability and meet customer load demands, expansion of the recycled water project through federal stimulus funding and an ADA accessible restroom at Bracher Park.

Lingering recession took a toll on reserves

Despite indications that forecast the economy was on the road to recovery, the impacts of the Great Recession have lingered. The City has been forced to use its emergency reserves in order to make up for revenues that did not come through as expected. Going forward, the City budget will have to be balanced by cutting expenditures. A high priority is rebuilding the reserve balance.

Emergency Reserve Balance

FY2007-08 FY2008-09 FY2009-10 \$21.1 million \$15.8 million \$0.5 million



Redevelopment Agency & SOSA

The City of Santa Clara Redevelopment Agency and its Sports & Open Space Authority (SOSA) are separate entities with their own budgets. The City Council serves as each agency's board and the City Manager serves as Executive Director.

Created in 1957, the Redevelopment Agency is the governing body for projects in the City's two Redevelopment project areas that are designed to stimulate private investment, improve public infrastructure, and encourage rehabilitation of blighted areas. Its revenues come from tax "increments," the additional property tax that is generated from these improvements above the base year when the project area was established. The Redevelopment Agency Budget for 2010-11 totals \$63.0 million. Redevelopment Agency funds are not legally available to help balance the City's General Fund.

Recent examples of Redevelopment Agency projects include the 40,000 square foot expansion of the ballroom at the Santa Clara Convention Center for economic development and the extension of the San Tomas Aquino Creek Trail.

State law mandates that 20% of Redevelopment funds be set aside for affordable housing and programs. Because of Santa Clara's commitment to affordable housing, the City sets aside 10% more than this mandate so that more individuals and families have a place to live that they can afford. Since 1990, the Agency has appropriated more than \$136 million for affordable housing for low and moderate income households.

The Sports & Open Space Authority was created in 1974 to acquire and develop open space (like Ulistac Natural Area) in the City of Santa Clara. Its revenues come from leases of City land to private enterprises and revenues from the Santa Clara Golf & Tennis Club. Its budget for fiscal year 2010-11 is \$6.0 million.



Always looming – the possibility of State takeaways of City revenue

The State of California has an enormous budget crisis that cannot and will not be solved quickly. In the past, the State has looked at city funds as a way to help bridge the gap between its revenues and expenditures. California voters passed measures to restrict State raids of local government funds, but loopholes allowed the State to take transit and redevelopment funds. In 2009-10, the State "borrowed" \$3.1 million of property taxes from the City of Santa Clara and took \$9.8 million from the City's Redevelopment Agency. For 2010-11 the State is taking another \$2 million from the City's Redevelopment Agency. Santa Clara is joining with other cities throughout the State to protect local governments from State takeaways.

Proposition 22 on the November ballot, known as The Local Taxpayer, Public Safety and Transportation Act of 2010 is designed to prevent the State from taking, diverting or borrowing local government, transportation and public transit funds dedicated to local services. Since 1992, the State has taken about \$70 million from the City of Santa Clara and its Redevelopment Agency.